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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

YEAR ENDED DECEMBER 31, 1948

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MARSHALL FIELD & COMPANY

1948

ANNUAL REPORT
TO SHAREHOLDERS

General Offices
25 East Washington Street
Chicago 2, Illinois

MARSHALL FIELD & COMPANY

An Illinois Corporation

Founded in 1852 *Incorporated in 1901*

A notice of the annual meeting of shareholders, to be held on April 26, 1949, together with a proxy statement and form of proxy will be mailed to shareholders on or about March 24, 1949.

General Counsel
WILSON & McILVAINE
CHICAGO

Public Accountants
ARTHUR ANDERSEN & CO.
CHICAGO

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
CHICAGO

GUARANTY TRUST COMPANY OF NEW YORK
NEW YORK

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
CHICAGO

BANKERS TRUST COMPANY
NEW YORK

BOARD OF DIRECTORS

ALBERT B. DICK, JR.
MARSHALL FIELD
STANLEY FIELD
CHARLES Y. FREEMAN
HENRY P. ISHAM
HUGHSTON M. McBAIN
JAMES L. PALMER
JAMES SIMPSON, JR.
JOHN P. WILSON

OFFICERS

President
HUGHSTON M. McBAIN

Executive Vice President
JAMES L. PALMER

Vice Presidents
AUSTIN T. GRAVES
LUTHER H. HODGES
MILTON C. MUMFORD
HAROLD J. NUTTING
JEAN L. SCHUREMAN
WILLIAM S. STREET

Divisional Vice Presidents
GARRET L. BERGEN
DAVID W. DAVIDSON
HECTOR A. ESCOBOSA
PAUL M. HAMMAKER
JOHN McKINLAY, JR.
LAWRENCE B. SIZER
HAROLD W. WHITCOMB

Treasurer
EARL KRIBBEN

Comptroller
JOHN D. ANDERSEN

Secretary
RALPH E. BOWERS

Assistant to the President
GERALD A. SIVAGE

Assistant Treasurer
CHARLES M. RHODES

Assistant Comptroller
JAMES C. WALSH

Assistant Secretary
VOLKER KOCH-WESER

TO THE SHAREHOLDERS

The Board of Directors submits this annual report for the year ended December 31, 1948.

Your Company's 1948 net income slightly exceeded that of 1947. A sales gain of 6.2% was necessary to achieve this result because the expense of doing business continued to rise in 1948. Higher salary and wage levels once more were a major factor in accounting for increases in expense.

Operating results for 1948 and 1947 are summarized in the following table:

	1948	1947
NET SALES	$224,547,000	$211,403,000
Wages, salaries and employe benefit costs	58,417,000	54,153,000
Cost of merchandise and miscellaneous expenses	146,720,000	138,126,000
Federal income taxes	7,376,000	7,267,000
Provision for inventory price decline	800,000	1,300,000
NET INCOME	11,234,000	10,557,000

Net income per Common Share after preferred dividend requirements was $5.45 compared with $5.10 in 1947 and $5.61 in 1946. The fifty-cent quarterly dividend rate in effect since 1946 was continued in 1948.

The Company's expenditures for improvement and modernization of buildings and equipment totaled $5,100,000 in 1948. Payments toward the 1948 cost of our employe Retirement Program were $3,900,000.

We ended the year with total merchandise commitments (inventories plus merchandise on order) 3% higher than at the end of 1947. Inventories at December 31 were $31,300,000, or $4,700,000 above those of December, 1947. As fine merchandise became more freely available during the year, we increased our retail inventories in line with our traditional policy of maintaining wide assortments of this type of goods.

Because prices advanced in 1948, and in anticipation of eventual price declines, we appropriated $800,000 out of 1948 income to increase our reserve against inventory price decline to $8,100,000. This is approximately 19% of our total merchandise commitments.

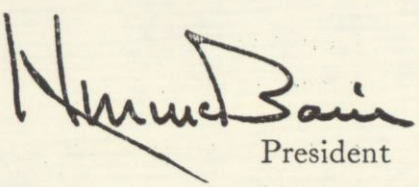
With a single exception, there were no significant changes in the character of our business during 1948. In our Fieldcrest Mills we discontinued manufacturing woolen piece goods early in the year, and sold the equipment of our Woolen Mill. No loss was sustained on the liquidation. The action was taken because of our belief that we could not earn satisfactory profits on this operation in the future.

The year just concluded was the third successive year in which our net income exceeded by a substantial margin the levels of the war and prewar years. During these three years our financial position has been steadily strengthened. By the retention of a considerable part of our earnings in the business, we have been able to finance larger inventories and receivables, as well as substantial capital improvements, without resort to borrowing. We have no long-term debt. We owe nothing to banks. We own most of our real estate; our long-term lease obligations total only about $300,000 annually. We are in a fairly strong cash position, and our earned surplus is at its highest level in many years. We believe our reserves to be adequate to meet any likely contingencies. In brief, we feel that your Company ended 1948 in the strongest financial position it has enjoyed in a generation or more.

However, the immediate outlook is not promising. During early 1949 our business has been disappointing. In Fieldcrest Mills, sales have declined sharply. Unfilled orders on our books as of December 31, 1948 were 37% less than at the end of the previous year. Gross profit margins have fallen in all divisions of the business, mainly because of a fairly general downward trend in prices. Markdowns have been heavier than in any recent year. Whether we are in the midst of a "readjustment", or whether a "recession" of more serious proportions is under way remains to be seen. In either event, the immediate effect upon earnings would be substantial. In previous reports I have expressed to you my concern about the hazards of inflation. Some of these hazards are now in process of realization. They were not unexpected.

The probability is that our earnings for the year 1949 will fall below the level of the past three years. The extent of the possible decline obviously hinges in part upon the severity of the "adjustment" which seems to be under way. It also depends in part upon the skill of our management group and other employes. These men and women have carried their responsibilities with distinction in the past. I have every confidence that they will continue to do so, regardless of the character of the problems with which we are confronted.

By order of the Board of Directors,

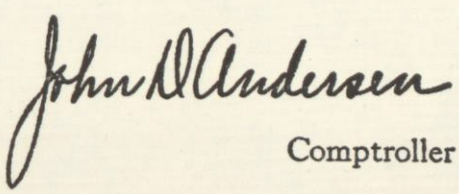


President

March 10, 1949

To the Shareholders of
Marshall Field & Company:

The financial statements contained in this report are correct, to my best knowledge and belief.



Comptroller

March 10, 1949

THE STORY in BRIEF

	1948	1947	1940
Net Sales	$ 224,500,000	$ 211,400,000	$ 90,000,000
Net Income	11,200,000	10,600,000	5,700,000
Net Income per Common Share	5.45	5.10	2.47
Dividends Paid	4,500,000	4,500,000	3,400,000
Dividends Paid per Common Share	2.00	2.00	1.30
Income Retained in Business	6,700,000	6,000,000	2,300,000
Cash and Securities	8,300,000	8,800,000	7,900,000
Merchandise Inventories	31,300,000	26,600,000	13,700,000
Merchandise on Order	11,900,000	15,100,000	4,000,000
Accounts Receivable	25,600,000	23,700,000	11,000,000
Current Assets	65,200,000	59,000,000	32,700,000
Net Working Capital	36,900,000	33,000,000	23,000,000
Fixed Assets	41,300,000	38,700,000	58,200,000
Expenditures for Plant and Equipment	5,100,000	6,800,000	1,700,000
Depreciation	2,200,000	1,800,000	2,400,000
Current Liabilities	28,300,000	26,000,000	9,700,000
Funded Debt	0	0	27,900,000
Capital Stock and Paid-in Surplus	41,000,000	41,000,000	42,000,000
Earned Surplus	27,800,000	21,100,000	10,800,000
Reserves	11,500,000	11,600,000	1,900,000
Net Worth and Reserves	80,300,000	73,700,000	54,700,000
Number of Shareholders	16,083	16,228	9,088

Income Statement

For the Years Ended December 31, 1948 and 1947

	1948	1947
NET SALES	$ 224,547,479	$ 211,402,847
DEDUCT:		
Materials and services purchased from others	$ 142,527,211	$ 134,643,451
Wages, salaries and employe benefit costs (see footnote)	58,416,882	54,152,552
Provision for depreciation and amortization	2,221,827	1,758,088
Taxes, other than social security and Federal income taxes	1,971,758	1,724,913
Federal income taxes (see footnote)	7,375,724	7,267,060
Provision for possible future decline in market value of inventories	800,000	1,300,000
	$ 213,313,402	$ 200,846,064
NET INCOME FOR THE YEAR	$ 11,234,077	$ 10,556,783

Footnote:

The portions of the past service costs of the Pension Plan paid or accrued in 1948 and 1947 are not included in wages, salaries and employe benefit costs and have not been deducted in determining the provisions for Federal income taxes. These costs, amounting to $1,466,000 in 1948 and $1,520,000 in 1947, less the reduction in taxes resulting therefrom, have been charged to a reserve. The Federal income taxes payable after deducting these costs are estimated at $6,818,644 in 1948 and $6,689,460 in 1947.

BALANCE SHEETS—DEC

ASSETS

	1948	1947
Current Assets:		
Cash	$ 8,269,151	$ 8,757,455
Receivables from customers and others, less reserves	25,642,371	23,656,503
Merchandise inventories, priced at the lower of cost or market	31,257,222	26,568,539
Total Current Assets	$ 65,168,744	$ 58,982,497
Prepaid Insurance, Supply Inventories, Etc.	$ 2,058,021	$ 1,999,664

Fixed Assets:

Classification	Cost	Reserves for Depreciation and Amortization		
Land	$ 16,312,410	$ —	$ 16,312,410	$ 16,314,549
Leaseholds	725,846	152,822	573,024	582,543
Buildings and building equipment	28,206,404	14,604,108	13,602,296	12,736,137
Equipment	17,874,339	7,026,479	10,847,860	9,088,390
Total Fixed Assets	$ 63,118,999	$ 21,783,409	$ 41,335,590	$ 38,721,619
Goodwill, Trademarks, Etc.			$ 1	$ 1
			$ 108,562,356	$ 99,703,781

MBER 31, 1948 AND 1947

LIABILITIES	1948	1947
CURRENT LIABILITIES:		
Accounts payable	$ 9,545,344	$ 8,992,726
Accrued Federal income taxes	9,878,437	9,670,305
Other accrued liabilities	8,852,243	7,354,549
TOTAL CURRENT LIABILITIES	$ 28,276,024	$ 26,017,580
RESERVES:		
For possible future decline in market value of inventories, etc.	$ 8,100,000	$ 7,300,000
For net past service cost of Pension Plan	3,377,919	4,286,839
	$ 11,477,919	$ 11,586,839
CAPITAL STOCK AND SURPLUS:		
Cumulative Preferred Shares— Authorized 300,000 shares of $100 par value, issuable in series—4¼% Series; redeemable at premiums per share of $9.00 through March 31, 1950; $6.50 through March 31, 1955, and $4.00 thereafter; issued and outstanding 150,000 shares	$ 15,000,000	$ 15,000,000
Common Shares— Authorized 4,000,000 shares of no par value, of which 180,000 shares may be sold to officers or employes without first offering such shares to the shareholders; issued and outstanding 1,943,763 shares at stated value	16,818,815	16,818,815
Paid-in surplus	9,207,179	9,207,179
Earned surplus ($6,000,000 not available for dividends on Common Shares as long as Cumulative Preferred Shares are outstanding)	27,782,419	21,073,368
	$ 68,808,413	$ 62,099,362
	$ 108,562,356	$ 99,703,781

Statement of Earned Surplus and Reserves
For the Year Ended December 31, 1948

Earned Surplus

Balance at December 31, 1947		$ 21,073,368
Net income for the year		11,234,077
		$ 32,307,445
Cash dividends declared on—		
Cumulative Preferred Shares, 4¼% Series	$ 637,500	
Common Shares ($2.00 per share)	3,887,526	4,525,026
Balance at December 31, 1948		$ 27,782,419

Reserve for Possible Future Decline in Market Value of Inventories, Etc.

Balance at December 31, 1947	$ 7,300,000
Increase in reserve provided out of 1948 income	800,000
Balance at December 31, 1948	$ 8,100,000

Reserve for Net Past Service Cost of Pension Plan

Balance at December 31, 1947	$ 4,286,839
Amount of past service cost paid or accrued in 1948 ($1,466,000), less reduction in Federal income tax ($557,080) resulting therefrom	908,920
Balance at December 31, 1948	$ 3,377,919

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO 3

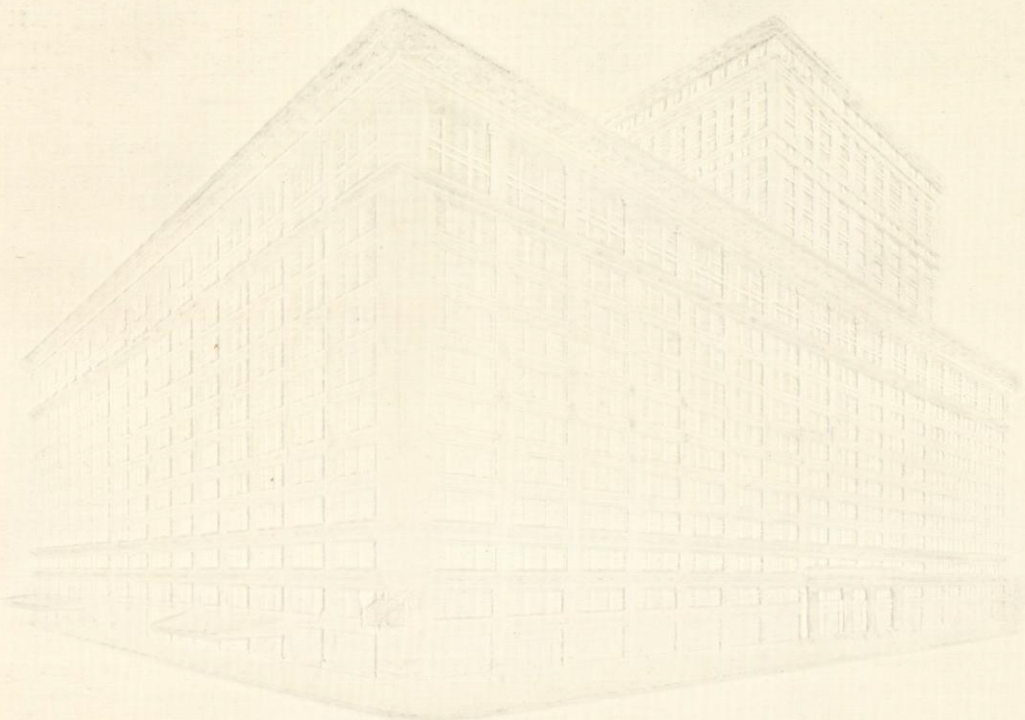
To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of December 31, 1948 and the related statements of income, earned surplus and reserves for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had previously made a similar examination for the year ended December 31, 1947.

In our opinion, the accompanying balance sheet and statements of income, earned surplus and reserves present fairly the financial position of Marshall Field & Company as of December 31, 1948 and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 18, 1949.



THE RETAIL STORE AND ANNEX BUILDING
CHICAGO